

Sunway REIT 9M profit rise within expectations

Sunway Real Estate Investment Trust (May 4, RM1.66)

Maintain hold with a target price (TP) of RM1.71: Sunway Real Estate Investment Trust's (REIT) nine months of financial year 2018 (9MFY18) normalised net profit of RM214 million (+7% year-on-year [y-o-y]) was within both our and consensus expectations. The improvement was primarily contributed by newly acquired properties: Sunway Clio Property and Sunway REIT Industrial — Shah Alam 1. The overall enhancement was slightly mitigated by higher finance costs as well as other trust expenses. We retain our forecasts and maintain our "hold" call with an unchanged TP of RM1.71 based on a targeted yield of 5.8%, which is derived from the two-year historical average yield spread of Sunway REIT and 10-year Malaysian Government Securities.

Its 9MFY18 gross revenue of RM424.2 million (+8.7% y-o-y) translated into a normalised net profit of RM214.2 million (+6.9% y-o-y). The results were within both our and consensus expectations, accounting for 76% and 74% of full-year forecasts respectively.

Sunway REIT declared a third interim dividend of 2.37 sen (third quarter of FY17: 2.37 sen), going ex on May 16, bringing its year-to-

Sunway REIT quarterly results comparison

FYE DEC (RM MIL)	3QFY17	2QFY18	3QFY18	Q-Q (%)	Y-O-Y (%)	9MFY17	9MFY18	Y-O-Y (%)
Gross revenue	134.6	141.5	141.5	0.0	5.2	390.3	424.2	8.7
Retail segment	105.7	103.8	107.9	4.0	2.2	304.2	315.3	3.6
Hotel segment	15.2	22.9	18.0	-21.4	18.1	46.4	63.9	37.8
Office segment	8.1	7.9	8.5	7.3	3.9	23.4	24.4	4.0
Others	5.6	7.0	7.2	2.8	28.6	16.3	20.6	26.3
Property opex	-34.4	-38.1	-36.2	5.0	-5.3	-100.0	-104.5	-4.5
Quit rent and insurance	-3.4	-3.8	-2.7	29.8	22.6	-10.3	-10.2	0.9
Other property opex	-31.0	-34.3	-33.6	2.2	-8.4	-89.8	-94.3	-5.1
Net property income	100.2	103.4	105.3	1.9	5.1	290.3	319.7	10.1
Retail segment	75.9	70.9	77.0	8.6	1.5	218.2	226.3	3.7
Hotel segment	14.2	21.9	16.7	-23.7	17.2	43.6	60.7	39.4
Office segment	4.5	3.6	4.4	23.8	-2.1	12.3	12.1	-1.5
Others	5.6	7.0	7.2	2.8	28.6	16.3	20.6	26.3
Other income	1.3	2.6	2.2	-15.5	70.0	7.4	6.4	-13.8
Net investment income	101.5	105.9	107.5	1.5	5.9	297.7	326.0	9.5
Finance costs	-22.5	-25.1	-27.4	-9.2	-21.7	-66.3	-76.6	-15.5
Normalised PBT	70.0	68.4	68.2	-0.4	-2.5	200.3	214.2	6.9
Normalised PAT	70.0	68.4	68.2	-0.4	-2.5	200.3	214.2	6.9
EPU (sen)	2.4	2.4	2.4	0.0	0.0	6.9	7.4	7.1
DPU (sen)	2.4	2.4	2.4	-0.4	0.0	6.9	7.4	7.2

Source: HLIB Research

date (YTD) dividend to 7.42 sen (9MFY17: 6.92 sen).

Quarter-on-quarter, normalised net profit fell by 0.4% due to higher finance costs and other trust expenses. The higher finance costs were due to the higher principal loan drawdown to fund acquisi-

tions, whereas the increase in other trust expenses was due to the professional fees incurred for the acquisition of Sunway Clio Property.

Y-o-y, revenue grew by 5.2%. However, net profit fell by 2.5%. While revenue improved due to the contributions of new assets

and overall growth in all segments, the drop in net profit was caused by both higher finance costs and other trust expenses.

YTD, normalised net profit for 9MFY18 increased by 6.9%, mainly driven by the proceeds from newly acquired Sunway Clio Property

and Sunway REIT Industrial — Shah Alam 1. Overall, all segments contributed to positive revenue growth, slightly offset by the increase in finance costs and other trust expenses.

A higher 9MFY18 gross revenue for the retail segment, by 3.6% y-o-y, was mainly contributed by a higher contribution from the Sunway Pyramid shopping mall and lower rental rebates given by Sunway Putra Mall. However, these were partially mitigated by a lower rental reversion of SunCity Ipoh Hypermarket.

The hotel segment's 9MFY18 gross revenue recorded an improvement of 37.8% y-o-y, primarily driven by a higher contribution from Sunway Pyramid Hotel following the completion of its refurbishment and the new contribution from Sunway Clio Property of RM2.2 million. This was slightly offset by lower revenue proceeds from Sunway Resort Hotel & Spa and Sunway Putra Hotel due to lower demand in the leisure segment.

The office segment registered a 4% y-o-y increment in 9MFY18 gross revenue. This was largely thanks to higher occupancy of Menara Sunway and Sunway Putra Tower with new tenants on board. However, this was partly offset by Wisma Sunway with its downsizing and non-renewal tenants. — *Hong Leong Investment Bank Research, May 4*